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**"September
collections were
\$(125.4) million
below forecast".**

This report has been
prepared for the Arizona
Legislature by the Joint
Legislative Budget
Committee Staff on
October 31, 2008.

Summary

September General Fund revenue collections were \$830.0 million, or (10.3)% below September 2007. September collections were \$(124.6) million below forecast.

For the first 3 months of FY 2009, General Fund collections are down (8.9)% when compared to last year (excluding URS and one-time transfers). *(See Table 1 and page 2 for more information).*

While there were declines in all 3 major revenue categories, sales tax and corporate income tax represent the largest dollar declines:

- September sales tax collections were down (6.7)% compared to September 2007 and were \$(46.5) million short of the monthly forecast. September marked the 9th

consecutive month of year-over-year reductions.

- September corporate income tax collections were down (25.6)% from September 2007, which was \$(55.2) million below forecast. September is a large collection month for corporate income tax due to quarterly payments.
- September individual income tax collections were down (1.9)% compared to September 2007 and were \$(26.9) million below forecast.

As we have explained in previous months, revenues would need to grow by 6.1% for the entire year to meet the budget forecast. Given the decline of (8.9)% in the first 3 months, revenues will likely fall significantly short of forecast.



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Summary (Continued)

A Finance Advisory Committee meeting was held on October 15th. (See summary on page 7). Based on the 4-sector consensus forecast, FY 2009 revenues are projected to decrease from (1.5)% to (5.7)% compared to the prior year. Based on these projections, the FY 2009 shortfall could range from \$(700) million to \$(1.1) billion.

JLBC/JCCR Meetings – The Monthly Fiscal Highlights include summaries of the October JLBC and JCCR meetings (pages 8-10).

In Memoriam – A former member of the JLBC Staff, Henry “Hank” Reardon passed away on October 29th. Hank was one of the first JLBC employees, and began his career at JLBC as its sole economist in 1970. He retired in 1999 as Chief Economist. The original version of the Monthly Fiscal Highlights was first published under Hank’s direction. Hank was a dedicated public servant and he will be missed by his many friends in the forecasting community.

September Revenues

Table 1

September General Fund Revenues Compared to Enacted Forecast and FY 2008 Collections (\$ in Millions)

	<u>FY 2009 Collections</u>	<u>Difference From June '08 Forecast</u>	<u>Difference From FY 2008</u>
September	\$830.0	\$(124.6)	\$(95.4)
Year-to-Date	\$2,283.8	\$(304.8)	\$(15.2)

“Sales Tax collections were...down (6.7)% compared to last September, and were \$(46.5) million below forecast”.

Sales Tax collections were \$342.3 million in September. These revenues were down (6.7)% compared to last September, and were \$(46.5) million below forecast. *Table 2* displays the September growth rates for the largest categories.

Table 2

Sales Tax Growth Rates Compared to Prior Year

	<u>Sept</u>	<u>YTD</u>
Retail	(5.9)%	(8.4)%
Contracting	(19.0)%	(17.9)%
Utilities	15.7%	12.7%
Use	(4.4)%	0.6%
Restaurant & Bar	(0.8)%	(4.0)%

As noted in previous months, retail and contracting together account for two-thirds of all sales tax revenues. The retail sector decreased by (5.9)% and contracting fell by (19.0)%.

For August (the latest available subcategory data), taxable sales in the retail category are down (9.6)% from the prior year. The largest subcategory within retail is the General Merchandise and Miscellaneous Retail category, which is down (3.3)%. The largest subcategory decline is in Motor Vehicles, which represents over 21% of the total, and is down almost (30)% compared to the prior year. Taxable retail sales by category are shown in *Table 3*. (Eric Jorgensen)

Table 3

August Taxable Retail Sales by Subcategory

	<u>% of Total Sales</u>	<u>% Change Over FY 2008</u>
General/Misc. Merchandise	30.1%	(3.3)%
Motor Vehicles/Misc. Auto.	21.7%	(28.1)%
Bldg Hardware, Mfg Home	7.5%	(14.7)%
Food and Liquor Stores	7.3%	2.7%
Furniture, Home Furnishings	6.9%	(17.3)%
Clothing and Accessories	5.8%	(9.9)%
Manufacturing	5.6%	(10.5)%
Other Subcategories	15.1%	5.6%
Total	100.0%	(10.3)%

September Revenues (Continued)

Individual Income Tax collections were \$355.4 million in September, or (1.9)% below last year. September collections were \$(26.9) million less than forecast. *Table 4* displays September and year-to-date growth rates for individual categories.

Table 4 Individual Income Tax Growth Rates Compared to Prior Year		
	<u>September</u>	<u>YTD</u>
Withholding	9.8%	(0.4)%
Estimated + Final Payments	(17.5)%	(18.4)%
Refunds	15.4%	6.5%

“Combining the two months, withholding tax collections are (1.1)% below August and September of last year”.

As reported last month, the large decline in individual income taxes in August was mostly attributable to August having 2 processing days less than in the prior year. The opposite holds true for September, which included 2 extra processing days relative to last year. This means that tax payments that would have normally been processed in August were instead recorded in September.

This difference in processing days helps to explain the (10.4)% decline in withholding in August and 9.8% increase in September. Combining the two months, withholding tax collections are (1.1)% below August and September of last year. (Hans Olofsson)

Corporate Income Tax collections were \$132.1 million, (27.4)% below last year’s collections, and \$(55.2) million below the forecast for the month of September. Through the 1st quarter, collections totaled \$248.0 million, or \$(73.4) less than the forecast.

Looking forward, October and November have historically been relatively small collection months for corporate income tax, while December is relatively larger due to quarterly estimated payments. (Martin Lorenzo)

Economic Indicators

NATIONAL

The nation's output of goods and services in the 3rd quarter of 2008 contracted by (0.3)%, according to the federal Bureau of Economic Analysis' advance estimate of the real **Gross Domestic Product**. Personal consumption expenditures, which comprise 70% of GDP, fell by (1.3)%. This was the first decline in consumer spending since the 4th quarter of 1991 and the largest drop since the 2nd quarter of 1980.

The Conference Board's **U.S. Consumer Confidence Index** for October declined by (23.4) points to a reading of 38.0—the lowest level recorded in the history of the survey. Year over year, the index is down by (60.1)%. The sharp decline in consumer confidence reflects declining employment, real incomes, and household wealth combined with frozen credit markets and falling stock prices.

The Conference Board's **U.S. Index of Leading Economic Indicators** increased by 0.3% in September, the first month-over-month increase since April this year. Six of the 10 components that make up the composite index advanced in September, with money supply, interest rate spread and consumer expectations being the strongest positive contributors. Declining stock prices and building permits combined with rising initial unemployment insurance claims all exerted a negative pressure on the leading index. Many analysts, including Global Insight, believe that the 0.3% increase of the index was distorted by the sharp rise in money supply and interest rate spread resulting from the ongoing crisis in financial markets.

The **U.S. Consumer Price Index** remained unchanged in September following a (0.1)% decline in the prior month. While inflationary pressures have eased over the last two months, consumer prices still remain high relative to last year as evidenced by a year-over-year CPI increase of 4.9%. The largely unchanged CPI reading is primarily due to the offsetting effect of falling energy prices.

ARIZONA

Most economic indicators released in September were negative. The Arizona Department of Commerce reported that the

state lost (59,200) or (2.2)% of **nonfarm jobs** in September compared to the same month last year. Additionally, September marked the 6th consecutive month with accelerating job losses. To provide some perspective, year-over-year job losses never exceeded (1.3)% during the 2001 recession and (0.2)% during the 1990/91 recession.

Job losses continue to be heavily concentrated in the goods-producing sectors of the economy where employment is down by (7.0)% year-over-year compared to (0.8)% for service-providing industries. The **construction sector** continues to weigh down the Arizona economy with a loss of (38,600) jobs in September. The construction sector now employs (17.2)% fewer individuals than a year ago.

Apart from the aerospace industry, the **manufacturing sector** is generally not performing well. Although the industry has experienced year-over-year job losses for 23 consecutive months, the decline has been relatively modest when compared to prior downturns. In September, the manufacturing sector lost (3,000) jobs or 1.7% of its workforce relative to the same month in the prior year.

The state's **unemployment rate** in September increased to 5.9% from 5.6% in the prior month.

Other signs of a weakening job market can be found in the state's **unemployment insurance** statistics. The Department of Commerce reported that 24,197 initial claims for unemployment insurance were recorded in September, an increase of 40.0% over last year.

Building permit activity is often viewed as a leading indicator for the economy in general and the construction sector in particular. Data from the U.S. Census Bureau shows that single family units authorized by building permits have declined year-over-year for 31 consecutive months (or since February 2006). There is nothing in the U.S. Census data to suggest that this trend will end soon. Permitting activity in the state has now reached levels comparable to those recorded during the 1990/91 recession.

Between June and August, the number of

"...September marked the 6th consecutive month with accelerating job losses."

Economic Indicators (Continued)



“For the first time in the current business cycle, Phoenix had the largest year-over-year price decline among the 20 metropolitan areas that are included in the index.”

authorized building permits (3-month moving average) statewide totaled 2,375, including 1,740 **single-family residential building permits** and 635 **multi-family building permits**.

Compared to the prior month, permitting activity in the single family and multi-family segments have decreased by (10.7)% and (11.7)%, respectively. Year-over-year, authorized permits in the single family segment are down by (49.4)%, while permits in the more volatile multi-family segment are down by (19.5)%.

One piece of good news for September was that the average supply of housing in the market fell from 10.5 to 8.9 months. The decline was mostly attributable to a higher sales volume since the number of homes listed on the MLS has remained largely unchanged. In a normal market there is typically no more than 4 to 5 months' supply of housing.

Housing data from ASU's Realty Studies also indicates that the number of homes resold in Greater Phoenix is increasing. The number of **single-family homes** sold in September totaled 8,280, of which 4,625 represented traditional sales and 3,655 the sale of foreclosed homes. The year-over-year increase for traditional home sales was 71.6% compared to 359.7% for foreclosed properties. The rapid increase in foreclosures is evident from the fact that foreclosed homes now constitute 44% of total resales compared to 33% in April.

The increased sales activity in the housing market has been spurred by falling home prices. Based on the September report, the Greater Phoenix **single-family median resale home price** was \$180,000 for traditional homes and \$153,000 for foreclosed properties. Year over year, the median resale price has fallen by (29)% for both traditional and foreclosed single-family homes.

The **S&P/Case-Shiller Home Price Index**, which is an alternative measure of housing price changes based on repeat sales, shows a similar decline for the Phoenix Metropolitan area as that reported by ASU. In August, the index for Phoenix stood at 144.83, or (30.7)% below August 2007 levels. The home price, as reflected by the index, is back to the level recorded in October 2004. For the first time in

the current business cycle, Phoenix had the largest year-over-year price decline among the 20 metropolitan areas that are included in the index.

The Arizona **Business Leaders Confidence Index** for the 4th quarter of 2008 gained 3.9 points or 10.1% over the prior quarter for a reading of 42.4. Although the index improved, it remains below 50, which means that panelists still expect the Arizona economy to worsen during the last quarter of this calendar year. Since the survey was closed prior to the onset of the turmoil in financial markets, it is likely that the 4th quarter reading would have been less than 42.4 points if panelists had been surveyed today.

The **Phoenix Sky Harbor International Airport** publishes passenger statistics monthly. In August, a total of 3,316,110 passengers entered and exited aircraft, which was a decline of (8.0)% compared to the same month last year.

AHCCCS caseloads in October decreased by (0.1)%, or (1,445) members, to 1,130,112. At current levels, the AHCCCS caseloads are 4.4% above October 2007 levels. The FY 2009 budget funded a projected caseload growth of 2.6%, or a total of 1,189,224 members.

There were a reported 80,732 **TANF recipients** in the state in August, an increase of 2.3% from July. Year-over-year, caseload is down (2.0)%. The FY 2009 budget assumes the TANF caseload will grow by 2.5%.

The **Department of Corrections' (ADC) inmate population** increased by an average of 123 inmates per month between July and September. ADC has now an average population of 39,091 inmates, or 1,647 more inmates than in the same period last year. (Hans Olofsson, Martin Lorenzo)

Economic Indicators (Continued)

Table 5

ECONOMIC INDICATORS				
Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
- Unemployment Rate	September	5.9%	0.3%	2.1%
- Initial Unemployment Insurance Claims	September	24,197	7.5%	40.0%
- Non-Farm Employment – Total	September	2.61 million	0.3%	(2.2)%
Manufacturing	September	177,600	(0.1)%	(1.7)%
Construction	September	185,700	(2.1)%	(17.2)%
- Contracting Tax Receipts (3-month average)	July-Sept	\$65.4 million	(4.0)%	(17.9)%
- Retail Sales Tax Receipts (3-month average)	July-Sept	\$147.2 million	(2.2)%	(8.4)%
- Residential Building Permits (3-month moving average)				
Single-unit	June-August	1,740	(10.7)%	(49.4)%
Multi-unit	June-August	635	(11.7)%	(19.5)%
- Greater Phoenix Existing Home Sales				
Single-Family, Traditional Sales	September	4,625	9.9%	71.6%
Single-Family, Foreclosed Sales	September	3,655	(10.9)%	359.7%
Townhouse/Condominium, Traditional Sales	September	500	(15.3)%	(47.1)%
Townhouse/Condominium, Foreclosed Sales	September	300	7.1%	300.0%
- Greater Phoenix Median Home Sales Price				
Single-Family, Traditional Sales	September	\$180,000	(7.0)%	(29.1)%
Single-Family, Foreclosed Sales	September	\$153,000	(5.5)%	(29.2)%
Townhouse/Condominium, Traditional Sales	September	\$145,000	(9.4)%	(21.6)%
Townhouse/Condominium, Foreclosed Sales	September	\$117,455	(6.6)%	(17.0)%
S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	August	144.83	(2.9)%	(30.7)%
- Months Supply of Housing (ARMLS)	September	8.9 months	(1.6) months	(8.0) months
- Phoenix Sky Harbor Air Passengers	August	3.3 million	(4.9)%	(8.0)%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	July	\$8.99	(3.7)%	20.5%
- Consumer Confidence Index (1985 = 100)	2 nd Quarter 2008	73.4	(8.0)%	(31.0)%
- Business Leaders Confidence Index	4 th Quarter 2008	42.4	10.1%	(0.2)%
- Arizona Personal Income	2 nd Quarter 2008	\$216.6 billion	1.6%	4.6%
- Arizona Population	July 1, 2007	6.34 million	173,066	2.8%
- AHCCCS Recipients	October	1,130,112	(0.1)%	4.4%
- TANF Recipients	August	80,732	2.3%	(2.0)%
- DOC Inmate Growth (3-month average)	July-Sept	39,091	123 inmates	1,647 inmates
United States				
- Real Gross Domestic Product (seasonally adjusted annual growth rate)	3 rd Quarter 2008	\$11.7 trillion	(0.3)%	0.8%
- Consumer Confidence Index (1985 = 100)	October	38.0	(38.1)%	(60.1)%
- Leading Indicators Index (2004 = 100)	September	100.6	0.3%	(3.0)%
- U.S. Semiconductor Billings (3-month moving average)	June-August	\$3.32 billion	(0.8)%	(7.3)%
- Consumer Price Index (1982-84 = 100)	September	218.81	0.0%	4.9%

FAC Meeting

At its October 15, 2008 meeting, the Finance Advisory Committee (FAC) heard presentations on General Fund Revenue collections, the U.S. economy, and implications of the slumping housing market and the resultant credit crunch. The FAC is a 16-member panel comprised of leading economists in the state. The panel meets 3 times a year and advises the Legislature on the state economy.

JLBC Staff provided members with the latest 4-sector consensus estimates for “Big 3” revenue collections. The 4-sector consensus estimate is a composite of equally weighted estimates from:

- The University of Arizona Economic and Business Research (EBR) General Fund baseline model;
- The EBR conservative forecast model;
- The FAC panel; and
- JLBC Staff.

Based on the 4-sector consensus, revenues are projected to decline by (4.4)% in FY 2009, prior to any tax law changes. This is down from the March FAC meeting, at which time the 4-sector consensus projected a FY 2009 growth rate of 0.5%. Year to date collections through September are down (8.9)% as compared to the same period last year.

In FY 2010, the 4-sector consensus predicts a further decline of (0.7)%.

Panel members also heard formal presentations from Elliott Pollack, Pete Ewen of Arizona Public Service, and Brian Cary of Salt River Project, in addition to comments from other panel members.

Committee members had an unfavorable outlook with regard to economic and revenue growth going forward. Members cited the escalation of the credit crunch and the downturn in the real estate market as the primary reasons for concern.

Members noted that the adverse impacts of the housing slump and credit crunch are being felt in lowered consumer spending, increased unemployment, and higher rates on loans outside the highly leveraged and risky loans that initiated the credit crunch.

In addition, Committee members expressed concern that current estimates for revenue

may be too optimistic. Members cited the large over-supply of homes and below trend population growth as motivating factors for the negative sentiment.

The Committee generally expects economic growth to bottom out sometime in FY 2009 or FY 2010. With regard to the duration of the slowdown, most members believe it will last several years, and be followed by a gradual recovery.

Overall, the 4-sector consensus model projects two to three years of below trend revenue growth before returning to the 7% trend level in FY 2012. In general, the FAC panel suggested that there are more downside than upside risks to the 4-sector consensus in FY 2009 and FY 2010.

As noted above, the 4-sector consensus revenue forecast for FY 2009 projects a decline of (4.4)%. The 4 components of the consensus forecast ranged from a decrease of (1.5)% to a decrease of (5.7)%. At these rates, the General Fund budget shortfall for FY 2009 is projected to be \$(700) million to \$(1.1) billion.



JLBC Meeting

At its October 2, 2008 meeting, the Joint Legislative Budget Committee considered the following issues:

Arizona Department of Administration (ADOA)

– Review of Risk Management Deductible – The Committee gave a favorable review to the Arizona Department of Administration's (ADOA) plan to continue to apply a \$10,000 deductible (the statutory maximum) in risk management cases. Currently, ADOA may charge a \$10,000 deductible for each risk management claim of \$150,000 or more unless the agency implements an ADOA approved plan to limit or eliminate similar future losses.

Department of Education – Review of Transfer to Structured English Immersion – The Committee gave a favorable review to the department's proposal to transfer \$646,300 from Basic State Aid monies to the Structured English Immersion Fund.

Department of Education – Review of Joint Technological Education District (JTED) Intergovernmental Agreements (IGAs) – The Committee gave a favorable review to the JTED IGAs. This review requirement was instituted by Laws 2006, Chapter 341.

Department of Education – Report of Plan to Fund AIMS Study Guides – The Department of Education notified the Committee of its plan to use some unused achievement monies to fund AIMS study guides. This item was for information only.

Department of Economic Security – Review of Requested Transfer of Appropriations – The Committee gave a favorable review to the Department of Economic Security's (DES) request to transfer funds from the Day Care Subsidy Special Line Item (SLI) to the Temporary Assistance for Needy Families (TANF) Cash Benefits SLI. This transfer fulfills technical and federal requirements.

Department of Health Services – Review of CRS Capitation Rate Changes – The Committee gave a favorable review to the DHS Children's Rehabilitative Services (CRS) capitation adjustments with provisions that administrative costs remain within the FY 2009 budgeted levels, and any capitation rate savings be reverted and not transferred for program expansions. The proposed capitation rates

cost the General Fund \$(1.4) million less than budgeted.

The Chairman scheduled the following items for information only and did not take votes at this meeting. The Chairman is seeking further information on the Governor's plans to resolve the FY 2009 budget shortfall and whether the funding associated with these particular agenda items could be part of the solution.

AHCCCS – Capitation Rate Changes

AHCCCS requested Committee review of its proposed capitation rate changes. The proposed rates would cost \$34.4 million more from the General Fund than budgeted in FY 2008, assuming budgeted caseload levels.

JLBC Staff – Index for School Facilities Board Construction Costs – The School Facilities Board (SFB) requested Committee approval of a possible 5.14% increase in the cost-per-square-foot factors for new school construction, which is based on an average of the Pinnacle One and Rider indices. This adjustment is projected to increase new construction spending by \$17.0 million from FY 2009 through FY 2013. Of that amount, about 5%, or \$392,200, will be expended in the current fiscal year.

Arizona Board of Regents – FY 2009 Tuition Revenues – The Arizona Board of Regents (ABOR) requested Committee review of its expenditure plan for tuition revenues for FY 2009. Each year, ABOR sets aside a portion of tuition and fee collections to be locally retained by the universities. These monies are non-appropriated and are primarily used for financial aid and debt service payments. Non-appropriated, locally retained tuition and fees in FY 2009 are estimated at \$391.4 million, or \$32.0 million higher than FY 2008. Of that amount, \$251.3 million is dedicated to student financial aid. The remaining portion of tuition and fee collections in FY 2008 is subject to legislative appropriation. Appropriated tuition collections in FY 2009 are expected to be \$ 538.1 million, representing a \$ 69.7million increase above the FY 2008 total, and \$56.7 million above the original FY 2009 budget. The overall increase in collections is primarily due to higher tuition and fees, which ABOR indexed for inflation.



JCCR Meeting

At its October 2, 2008 meeting, the Joint Committee on Capital Review considered the following issues:

Mohave Community College District – Review of General Obligation Bond Issuance – The Committee gave a favorable review to the issuance of \$111.5 million in general obligation bonds, with the provision that the college report to the Committee prior to each issuance. Each bond issuance will be repaid over 25 years by increasing the secondary property tax rate, if approved by the voters in November 2008. The district estimates that the average annual tax increase would be \$1.33 for every \$100,000 of property value.

Pinal County Community College District – Review of General Obligation Bond Issuance – The Committee gave a favorable review to the issuance of \$99.0 million in general obligation bonds. The bond will be repaid over 25 years by increasing the secondary property tax rate, if approved by the voters in November 2008. The district estimates that the average annual tax increase would be \$10.95 for every \$100,000 of property value.

Arizona Department of Administration – Review of Arizona Department of Corrections Prison Beds and Yuma Water Treatment Plant – The Committee gave a favorable review of the Arizona Department of Administration (ADOA) to lease-purchase finance \$202 million for 4,000 prison beds and a water treatment plant. The Committee's review was limited to the project specifics, as the Committee previously favorably reviewed and approved the debt-financing for these projects.

Arizona Department of Administration – Review of Lewis and Tucson Prison Water and Wastewater Projects – The Committee gave a favorable review to 2 Arizona Department of Corrections prison water and wastewater projects totaling \$4.6 million.

Arizona Department of Corrections – Review and Approval of Energy Performance Contract – The Committee gave a favorable review and approval for the Arizona Department of Corrections (ADC) to enter into an Energy Performance Contract with a private vendor with the provisions that ADC retains all energy savings in excess of debt

service payments and this does not constitute endorsement of any level of General Fund appropriations for purchase of the energy equipment or the debt service payments.

Arizona Game and Fish Department – Review of FY 2009 Building Renewal Allocation Plan and Report on Flood Warning System – The Committee gave a favorable review to the FY 2009 Building Renewal Allocation Plan presented by the Arizona Game and Fish Department. The \$531,000 plan includes \$52,200 for fish hatchery projects, \$45,300 for shooting range projects and \$433,500 for office projects. In addition, AGFD submitted a report on expenditures for the \$350,000 Flood Warning System project appropriated by Laws 2006, Chapter 345.

School Facilities Board – Review of FY 2009 \$585 Million Lease-to-Own Agreement and FY 2009 New School Construction Report – The Committee favorably reviewed the \$585 million lease-to-own agreement, which excludes Full-Day Kindergarten (FDK) capital costs of \$8 million. SFB expects to oversee 29 on-going school construction projects in FY 2009 and will spend a total of \$245.3 million. All of these 29 projects have been approved by the board and began construction prior to the FY 2009 new construction moratorium. Of the \$585 million lease-to-own agreement, SFB will use \$229 million for FY 2009 construction expenditures, which excludes \$8 million for FDK.

The Chairman scheduled the following items for information only and did not take votes at this meeting. The Chairman is seeking further information on the Governor's plans to resolve the FY 2009 budget shortfall and whether the funding associated with these particular agenda items could be part of the solution.

Arizona Department of Administration – FY 2009 Building Renewal Allocation Plan and Reallocation of FY 2008 Building Renewal Funds – The Arizona Department of Administration (ADOA) requested Committee review of its FY 2009 Building Renewal Allocation Plan totaling \$6.1 million from the Capital Outlay Stabilization Fund. ADOA also requested Committee review of its intention to reallocate \$1.3 million of FY 2008 Building Renewal monies for the Department of Revenue's elevator renovation project.



JCCR Meeting (Continued)

Arizona State Parks Board – State Parks Enhancement Fund Project – The Arizona State Parks Board requested Committee review and approval of its plan to use of \$1.2 million in State Parks Enhancement Fund monies for repairs to the Douglas Mansion at Jerome State Historical Park.

Arizona Department of Transportation – FY 2009 Building Renewal Allocation Plan – The Arizona Department of Transportation (ADOT) requested Committee review of its proposed allocation of \$3.9 million from the State Highway Fund for 286 projects, contingencies, and project management support and \$156,900 from the State Aviation Fund for 25 projects.

University of Arizona – Residence Halls and Residence Life Building Renewal – The University of Arizona requested Committee review of its proposal to spend \$159.3 million in system revenue bonds to construct two new residence halls and \$37.3 million for residence life building renewal projects. For both issuances, the proposed debt service will be paid from dorm rental revenues, for a cost of \$9.8 million from FY 2009 to FY 2011 and a cost of \$13 million starting in FY 2012.

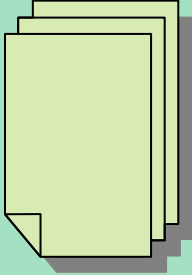
University of Arizona – Enterprise Systems Replacement (Mosaic) Project – The University of Arizona requested Committee review of its proposal to spend \$33.3 million in system revenue bonds to replace its major computer systems, which support the university's personnel system, research administration, and financial reporting. The proposed debt service will be paid from 2 revenue sources: indirect cost recovery and administrative service charges, for an annual cost of \$3.3 million.

University of Arizona – Energy Bonds – The University of Arizona (UA) requested Committee review of its proposal to enter into a third party debt financing agreement for \$2.3 million to purchase solar panels. Under this agreement, a private vendor would issue Clean Renewable Energy Bonds on behalf of UA. UA would be responsible for the annual principal amount and a small portion of the interest payments. The proposed debt service will be paid from Indirect Cost Recovery funds, for an annual cost of \$186,000.

Arizona State University – Science Building Bond Project – Arizona State University requested Committee review of its proposal to spend \$185 million in system revenue bonds to construct a new science building. The proposed project includes lab space, offices and an auditorium. The proposed debt service will be paid from 4 revenue sources: Indirect Cost Recovery funds, Proposition 301 funds, tuition, and other local funds, for an annual cost of \$12.9 million.

Universities – University Lottery Bond Projects - Building Renewal – The Universities requested Committee review of their Building Renewal projects (Arizona State University \$34.4 million; the University of Arizona \$68.5 million; and Northern Arizona University \$64.8 million). These issuances represent a portion of the \$1 billion University Lottery Bonding package as authorized by the FY 2009 Education Budget Reconciliation Bill (BRB) (Laws 2008, Chapter 287). The proposed debt service is designed to be funded with 2 separate revenue streams as prescribed by the FY 2009 Education BRB. Approximately \$11.3 million, or 80%, will come from state Lottery proceeds, while \$2.9 million will come from local university funds.

Summary of Recent Agency Reports



Administrative Office of the Courts/State Department of Corrections – Report on Probation Revocation and Crime Reduction Performance – A.R.S. § 12-270 (F) requires the Administrative Office of the Courts (AOC) and the State Department of Corrections (ADC) to report, by October 1, on various statistics for the previous fiscal year. A summary of the reported data for FY 2008 is as follows:

- On average, 43,403 (ranged from 125 in La Paz County to 26,428 in Maricopa County) people were on “direct” supervised probation.
- A total of 6,801 probationers were revoked to ADC for a term of imprisonment.
- Approximately 3,174 (ranged from 4 in La Paz County to 2,222 in Maricopa County) people on probation had a new felony conviction.
- ADC had contracts in place with private prison companies for a total of 8,010 beds at an average cost of \$57.24 per bed, per day.

(Martin Lorenzo)

Department of Corrections/ADOA – Report on the Status of Public and Private Beds – Laws 2007, Chapter 261 authorized the Arizona Department of Administration (ADOA) to contract for 2,000 new private prison beds, as well as the construction of 4,000 new public beds, to be funded via a 20-year, \$200 million lease-purchase agreement. Highlights of this report are as follows:

2,000 Private Beds

- Management and Training Corporation (MTC) has been awarded the contract and had indicated financing would be complete mid-November 2008.
- Separate from the report, MTC has subsequently indicated that problems in the credit market continue to make it difficult to obtaining financing at reasonable rates.

4,000 Public Beds

- ADOA has authorized construction to begin and the entire project is anticipated to be completed in late-January 2010.

(Martin Lorenzo)

DEMA - Report on Camp Navajo Fund – Pursuant to A.R.S. § 26-152, the Department of Emergency and Military Affairs (DEMA) is

required to submit an annual report describing the activity in the Camp Navajo Fund by August 31 of each year. The Camp Navajo Fund pays for the National Guard to operate a regional training site and storage facility located at Bellemont. The fund’s revenues consist of monies received from federal and other government sources for storage of government commodities and services provided by the camp. DEMA reports that the Camp Navajo Fund received revenues of \$10.0 million and had expenditures of \$9.8 million in FY 2008. This left a fund balance of \$2.3 million at the end of the fiscal year due to a beginning balance. (Eric Billings)

Arizona Historical Society – Report on Non-Appropriated Expenditures – Pursuant to A.R.S. § 41-821E, the Arizona Historical Society is required to report on non-appropriated fund expenditures for the society. Non-appropriated expenditures for FY 2008 were \$856,500, an increase of \$142,300 above the FY 2007 total of \$714,200. (Caitlin Acker)

Department of Juvenile Corrections – Report on Restitution Fund – Pursuant to A.R.S. § 41-2826F, the Department of Juvenile Corrections (DJC) is required to submit an annual report detailing all revenues and expenditures made from the department’s Restitution Fund. DJC submitted its latest report on September 25, 2009.

These monies are used to pay restitution and monetary assessments on behalf of youth working in the Committed Youth Work Program who were unable to make these court-ordered payments when they were originally sentenced to DJC. As of June 30, 2008, the DJC reports that Restitution Fund revenues and expenditures for FY 2008 totaled \$24,564, as compared to \$33,245 in FY 2007. According to DJC, the 26.1% decrease is due to a lower juvenile population in FY 2008. (Jon McAvoy)

Arizona Department of Public Safety – Quarterly Report on GIITEM – Pursuant to Laws 2008, Chapter 285 (General Appropriation Act), the Arizona Department of Public Safety (DPS) is required to report quarterly on the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM).

Summary of Recent Agency Reports (Continued)

DPS Personnel

In the first quarter of FY 2009, DPS spent or encumbered \$2.3 million of the \$10 million appropriation for the 100 DPS immigration staff. As of September 30, 2008, 62 of the 100 DPS positions were filled.

Local Law Enforcement Efforts (Multi-Jurisdictional Task Force)

During the first quarter, DPS did not spend any of the \$10 million for FY 2009 local law enforcement grants. Currently, DPS reports that the agency is spending the remaining portion of the non-lapsing FY 2008 appropriation. Of the \$10 million FY 2008 appropriation, \$288,900 had been spent at the end of FY 2008, which leaves \$9,711,100 in non-lapsing funding available. DPS' spending of that funding was not available for the first quarter.

State Parks Board – Annual Report on Out-of-State Travel – Pursuant to a FY 2008 General Appropriation Act footnote, the State Parks Board is submitting a report of out-of-state travel expenses in FY 2008. The footnote stipulates that during FY 2008 and FY 2009, out-of-state travel expenses by State Parks Board staff shall not exceed \$5,000 each year from appropriated or non-appropriated monies.

At a total of \$3,300, out-of-state travel expenses for State Parks Board staff for FY 2008 were within the \$5,000 limit. These out-of-state travel expenses were incurred primarily for attendance at conferences and meetings. (Art Smith)

School Facilities Board – Report on Costs for Building Renewal and New Construction at the Arizona State Schools for the Deaf and the Blind – Pursuant to A.R.S. § 15-2002, the School Facilities Board (SFB) is required to biennially report on the resources needed to fulfill the building renewal and new construction requirements in A.R.S. §

15-2031 and 15-2041 for the Arizona State Schools for the Deaf and the Blind (ASDB). ASDB operates 2 campuses, a campus in Phoenix and a campus in Tucson. According to SFB, the total cost for building renewal for ASDB is projected to be \$658,961 in FY 2010 and \$709,951 in FY 2011. SFB also estimates new construction costs totaling \$36,879,668 for ASDB to meet minimum space requirements through FY 2011. ASDB has requested a total of \$3,069,418 in capital improvements for FY 2010. (J.A. Brown)

School Facilities Board – Report on Energy and Water Savings Pilot Program – Pursuant to Laws 2007, Chapter 266, the School Facilities Board (SFB) shall report by October 1, 2008 and October 1, 2009 on active grants made from the Energy and Water Savings Grant Fund, energy and water savings, cost savings, and other benefits implemented by grant recipients. Of the \$2,500,000 appropriated to the fund in FY 2008, SFB has awarded \$2.25 million in development and implementation grants, while the remaining \$0.25 million was used for administrative and technical assistance costs. Development grants are used to assess existing school facilities and develop recommendations for improvements, while implementation grants are used to implement energy savings projects. (Leatta McLaughlin)

Supreme Court – Report on Case and Cash Management System – Pursuant to a footnote in the FY 2008 General Appropriation Act, the Administrative Office of the Courts (AOC) is required to report on the monies expended from the Case and Cash Management System (CMS) line item and progress related to the development and deployment of the system. Monies are to be used for the replacement of the aging case management

systems in courts throughout the state. (Jon McAvoy)

AOC has estimated that the upgrade of these systems will continue through FY 2012. As of June 30, 2008, the report listed current expenditures of \$5,422,900 and planned expenditures of \$26,807,400. AOC selected a vendor to develop the general jurisdiction case and case management system. AOC received the final test version of this software on April 25, 2008 and scheduled pilot implementations for Yuma and LaPaz Counties during the summer of 2008. AOC is currently evaluating 2 options available for use as the limited jurisdiction case management system: AmCad and the system currently under development by the Tempe Municipal Court. (Jon McAvoy)

Supreme Court - Report on Current and Future Automation Projects – Pursuant to a General Appropriation Act footnote, the Administrative Office of the Courts (AOC) has provided its FY 2009 report to the JLBC on current and future automation projects coordinated by the AOC. The AOC estimates total state automation expenditures in FY 2009 will be approximately \$19.8 million. Of this amount, approximately \$5.1 million (26%) will be spent on ongoing automation support, and \$7.8 million (40%) will be spent on 10 new projects in FY 2009. Of the 10 new projects, the larger projects include:

- Updating the general jurisdiction case management system for 13 of the 15 counties in Arizona (\$5,162,500)
- Updating and enhancing the Juvenile On-Line Tracking System (JOLTS) (\$1,306,800)
- Updating the limited jurisdiction case management system for statewide utilization (\$657,100)
- Further development of

Summary of Recent Agency Reports (Continued)

electronic filing (\$338,100)

The report does not meet the reporting guidelines as required by the FY 2009 General Appropriation Act for the \$5.1 million in ongoing projects, as it does not itemize funding levels for specific projects associated with the \$5.1 million in ongoing automation projects and support. (Kim Cordes-Sween)

University Research Infrastructure – Report on General Fund Deposits – Laws 2003, Chapter 267 appropriated a total of \$34,625,000 from the General Fund to the state university system from FY 2008 through FY 2031 to finance lease-purchase payments for research infrastructure project agreements entered into before July 1, 2006. Beginning in fiscal year 2008, Chapter 267 (A.R.S. § 15-1670) requires the universities to deposit into the state General Fund a portion of the income from licensure and royalty payments or the sale and transfer of intellectual property developed by the university. All 3 universities have recently reported that no deposits were made in FY 2008, but did not report revenues as required by statute. (Leah Kritzer)

Department of Water Resources – Report on Fees Collections in the Assured and Adequate Water Supply Fund – Pursuant to a FY 2008 General Appropriation Act footnote, the Department of Water Resources (DWR) has submitted the amount of fees collected by the Assured and Adequate Water Supply (AAWS) program.

Laws 2005, Chapter 217 established the fund to provide for the costs and expenses incurred by DWR when determining and declaring assured and adequate water supplies. The AAWS Administration Fund consists of monies that are paid to the DWR for applications related to assured and adequate

water supplies. Previously, fees were deposited into the General Fund.

DWR reports that for the quarter ending September 30, 2008, the department collected \$83,700. This amount is \$(37,600), or (31)%, below collections for the same period in FY 2008. (Leah Kritzer)

Department of Water Resources – Report on Interstate Water Banking – Pursuant to A.R.S. § 45-2473, the Department of Water Resources has submitted a report accounting for all monies received through the Interstate Water Banking Agreement with Nevada and other obligations.

In 2004, the Southern Nevada Water Authority (SNWA) agreed to pay the Arizona Water Banking Authority (AWBA) \$230 million for delivery and storage of water. Equal payments of \$23 million per year from Nevada to the AWBA will begin in 2009 and continue through 2018.

In the 2004 agreement, SNWA also agreed to pay an additional \$100 million to AWBA to guarantee the availability of the 1.25 million storage credits for Nevada. If the additional \$100 million is not needed to guarantee the credits in the short term, Arizona may use this amount for its own purposes, subject to legislative appropriation.

AWBA received the \$100 million from SNWA in 2 installments in 2005, which were deposited in a subaccount with the State Treasurer. In FY 2007, the AWBA did not receive any additional funds from SNWA. In FY 2008, AWBA used \$4.7 million to store water for Nevada. Combined with expenditures from prior years, the ending balance for FY 2008 is estimated to be \$18.9 million (of the \$100 million). (Leah Kritzer)

State of Arizona

General Fund Revenue:

Change from Previous Year and Enacted Forecast September 2008

	Current Month					FY 2009 YTD (Three Months)				
	Actual September 2008	Change From				Actual September 2008	Change from			
		September 2007		Forecast			September 2007		Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	342,275,305	(\$24,567,568)	(6.7) %	(\$46,461,195)	(12.0) %	\$1,043,707,764	(\$82,652,486)	(7.3) %	(\$145,078,336)	(12.2) %
Income - Individual	355,393,041	(6,860,355)	(1.9)	(26,910,459)	(7.0)	852,434,132	(43,671,018)	(4.9)	(87,389,268)	(9.3)
- Corporate	132,083,502	(45,503,559)	(25.6)	(55,238,398)	(29.5)	174,529,171	(65,961,762)	(27.4)	(73,435,329)	(29.6)
Property	43,350	(27,657)	(38.9)	13,750	46.5	270,669	(156,712)	(36.7)	(876,431)	(76.4)
Luxury	4,849,128	(956,062)	(16.5)	(189,772)	(3.8)	14,621,216	(60,937)	(0.4)	(192,784)	(1.3)
Insurance Premium	38,373,912	6,905,444	21.9	9,417,912	32.5	124,855,252	6,628,746	5.6	13,628,452	12.3
Estate	(18,466)	(18,466)	--	(18,466)	--	4,196	(249,880)	(98.3)	4,196	--
Other Taxes	37,800	821	2.2	(14,700)	(28.0)	130,941	(9,938)	(7.1)	(26,559)	(16.9)
Sub-Total Taxes	\$873,037,572	(\$71,027,402)	(7.5) %	(\$119,401,328)	(12.0) %	\$2,210,553,341	(\$186,133,987)	(7.8) %	(\$293,366,059)	(11.7) %
<u>Other Revenue</u>										
Lottery	2,416,500	(3,262,300)	(57.4)	(1,921,000)	(44.3)	4,823,000	(4,413,219)	(47.8)	(3,336,800)	(40.9)
License, Fees and Permits	2,469,936	(48,503)	(1.9)	(1,288,364)	(34.3)	7,774,671	(170,558)	(2.1)	(2,643,729)	(25.4)
Interest	2,915,831	(20,429,227)	(87.5)	(2,369,569)	(44.8)	5,124,457	(25,795,760)	(83.4)	(5,011,843)	(49.4)
Sales and Services	3,848,140	(715,404)	(15.7)	(1,794,360)	(31.8)	8,825,801	(945,829)	(9.7)	(4,003,799)	(31.2)
Other Miscellaneous	4,168,195	2,415,244	137.8	2,019,595	94.0	8,948,566	5,605,922	167.7	4,425,466	97.8
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	1,822,361	1,283,347	238.1	162,361	9.8	4,128,092	(8,066,275)	(66.1)	(851,908)	(17.1)
Sub-Total Other Revenue	17,640,963	(20,756,843)	(54.1) %	(5,191,337)	(22.7) %	39,624,587	(33,785,719)	(46.0) %	(11,422,613)	(22.4) %
TOTAL BASE REVENUE	\$890,678,535	(\$91,784,245)	(9.3) %	(\$124,592,665)	(12.3) %	\$2,250,177,928	(\$219,919,706)	(8.9) %	(\$304,788,672)	(11.9) %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(60,639,783)	(3,594,872)	6.3	0	0.0	(181,919,349)	(10,784,617)	6.3	0	0.0
Budget Plan Transfers	0	0	--	0	--	215,546,792	215,546,792	--	0	0.0
Sub-Total Other Adjustments	(60,639,783)	(3,594,872)	6.3 %	0	0.0 %	33,627,443	204,762,175	-- %	0	0.0 %
TOTAL REVENUE	\$830,038,752	(\$95,379,117)	(10.3) %	(\$124,592,665)	(13.1) %	\$2,283,805,371	(\$15,157,531)	(0.7) %	(\$304,788,672)	(11.8) %